

CITY ATTORNEY'S IMPARTIAL ANALYSIS OF MEASURE L

The Palo Alto City Council has placed this measure on the ballot. If voters approve it, the measure would amend the Municipal Code to affirm the City's current practice of transferring funds each year from the City's natural gas utility to the General Fund to help pay for general City services.

Background: City voters adopted Article VII of the City Charter in 1950 to authorize the transfer of utility revenues to the General Fund after other obligations are paid, such as operating and maintenance expenses, debt payments, capital expenditures and reserve funding. Under this authority, the City Council has for decades approved yearly transfers of natural gas utility revenue to the General Fund. The transfer provides approximately \$7 million each year toward City services maintained by the General Fund, such as roads, parks, libraries, climate change reduction, police, fire, emergency medical and 9-1-1 response. About half of the transfer is paid by the gas utility's commercial customers, and half is paid by residential customers.

The City designs its natural gas rates so the utility will have enough money to cover its expenses as well as the General Fund transfer. In 2015, a lawsuit challenged this longstanding practice. In 2021, the Santa Clara Superior Court ruled that a portion of the natural gas transfer is a tax that requires voter approval to continue. Both sides appealed and are exploring a settlement that would likely cover 2015 to 2022. This measure, if approved, will apply prospectively, from 2023 onward.

The Measure: The measure would amend the Municipal Code to authorize the City's current practice of yearly transfers of up to 18% of the revenues of the natural gas utility to the General Fund to support general City services. The cost of the transfer will be incorporated into customers' gas rates, as it is now, and it will be a general tax.

This measure requires approval by a simple majority of voters voting on the measure.

A "Yes" vote will amend the Municipal Code to allow the City to continue funding the transfer through natural gas rates to pay for general City services. Approval of this measure will not increase customers' gas bills, because the City's current natural gas rates already include the cost of the transfer.

A "No" vote means the proposed Municipal Code amendment would not go into effect. If the measure does not pass, there could be an annual loss of money to the General Fund of approximately \$7 million. If so, the City Council may need to consider eliminating or reducing City services.

Signed: Molly Stump
City Attorney

THE ABOVE STATEMENT IS AN IMPARTIAL ANALYSIS OF THE MEASURE. IF YOU DESIRE A COPY OF THE MEASURE, PLEASE CALL THE CITY CLERK'S OFFICE AT (650)329-2571 AND A COPY WILL BE MAILED AT NO COST TO YOU, OR YOU MAY ACCESS THE TEXT FROM THE INTERNET AT https://www.cityofpaloalto.org/files/assets/public/city-clerk/election-info/2022/please_docusign_reso_10065_-_natural_gas_utility.pdf.